

FDIC State Profile

Summer 2005

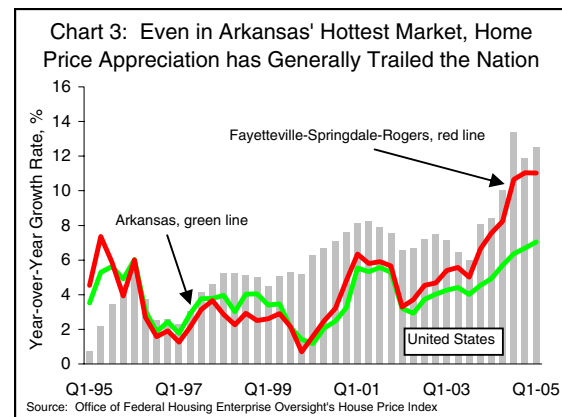
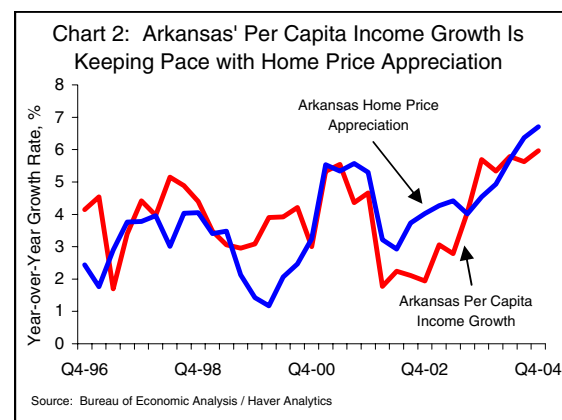
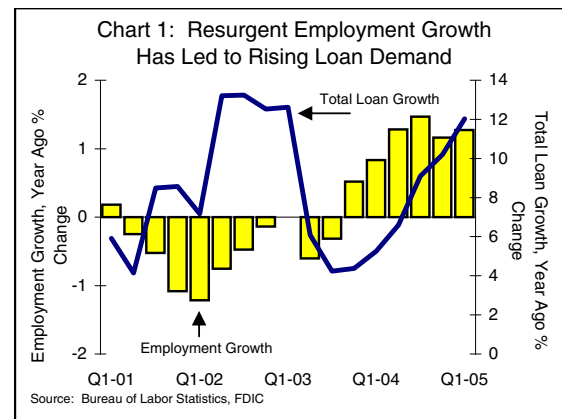
Arkansas

The Arkansas economy continues to expand, spurring growth for state-headquartered institutions.

- The state experienced solid employment growth of 1.27 percent during first quarter 2005 (See Chart 1). Led by strong growth in the professional and business services and leisure and hospitality sectors, this is the fourth consecutive quarter of year-over-year growth of 1 percent or better.
- The resurgent state economy and favorable interest rate environment has spurred strong loan demand at state institutions during the past year. In particular, total loans secured by real estate rose 16 percent from one year ago.
- Similar to the nation, the Arkansas housing market has been active, contributing to the aforementioned real estate loan growth. However, unlike some housing markets in the nation, the rise in per capita income levels in Arkansas has remained in line with the rise in home prices (See Chart 2), thus helping to maintain a relatively good measure of housing affordability. Even **Fayetteville-Springdale-Rogers**, one of the most dynamic markets in the country, has trailed the national average for home price appreciation over the past five years (See Chart 3).
- The rise in interest rates, projected by some market observers, seems likely to have a more modest impact on the state's housing markets than in other areas of the country because a high level of affordability lessened the need for financing options which could stress consumers finances as rates rise, and decrease the number of potential purchasers. For example, in 2004, 24 percent of loans originated in Arkansas were adjustable rate mortgages compared to the national average of 35 percent.

The flattening yield curve is beginning to affect profitability.

- The recent flattening of the yield curve, as a result of a rise in short term interest rates caused a moderate amount of net interest margin (NIM) compression at state-headquartered institutions. In fact, 60 percent reported lower NIMs in first quarter 2005 compared to the previous year. The decline in the NIM is a result of



State Profile

costs on deposits and other funding liabilities rising faster than yields earned on loans and securities.

- NIM compression, along with slightly higher overhead expense, has led to reduced profitability at most state-headquartered institutions; 54 percent reported lower returns on assets in first quarter 2005 from the same period one year ago (See Chart 4).

The effect of proposed changes in military bases will vary in Texarkana and Little Rock.

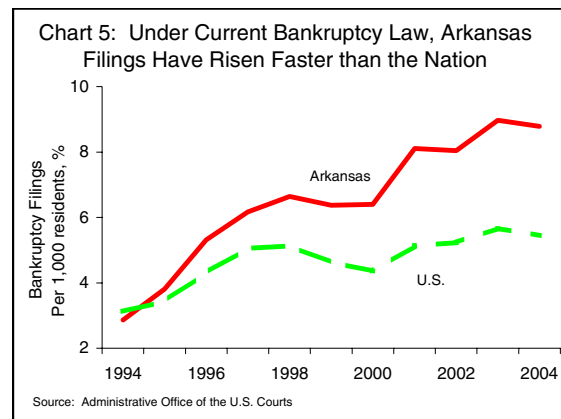
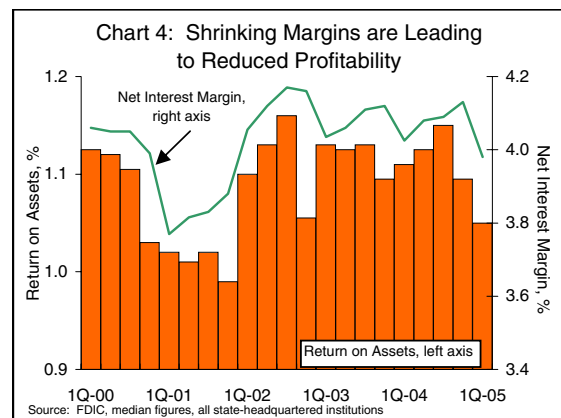
- **Texarkana** could suffer a serious economic blow as a result of the proposed Department of Defense's base closures. The city's largest employer, the Red River Army Depot, as well as the Lone Star Army Ammunition Plant, are both scheduled to close within the next six years. The two facilities account for 6.5 percent of the city's total employment base; approximately 4,400 direct and indirect jobs would be eliminated.¹
- As of June 30, 2004, there were nine financial institutions with 40 offices competing for \$1.5 billion in total deposits in the Texarkana MSA. Of those nine institutions, three are headquartered in the MSA, each relying on the local area for more than 50 percent of their total deposits.²
- After outperforming the state and nation in employment growth every quarter from fourth quarter 2002 to third quarter 2004, **Little Rock's** economic expansion cooled slightly over the two most recent quarters. However, prospects for continued solid growth were bolstered by the recent announcement that the Little Rock Air Force Base (**Jacksonville**) is expected to add approximately 6,500 jobs in the next six years.¹

Recent bankruptcy reform could reduce the number of filings in the state.

- The recently enacted Bankruptcy Abuse Prevention and Consumer Protection Act aims to restrict a debtor's ability to file under Chapter 7 of the Bankruptcy Code. The most significant revision is the addition of "means testing," which allows the court to dismiss Chapter 7 bankruptcy petitions if an individual's household income is greater than the median income for their state. Under this new legislation, individuals failing the means test will be required to file under Chapter 13, which allows the courts to set up a partial-repayment program.
- Ten years ago, the per capita bankruptcy filing rate in Arkansas was slightly below the national average. Since that time, however, the state's rate has soared and is now

nearly double the national rate (See Chart 5). In 2004, Arkansas had the fifth highest per capita bankruptcy rate in the nation with 8.78 filings per 1,000 residents. Arkansas could possibly experience a surge in bankruptcy filings through October 17th when the new bankruptcy law goes into effect, as debtors already considering bankruptcy rush to take advantage of the existing rules.

- Proponents of the new law say that in the long term, the law will reduce the number of bankruptcy filings by reducing the benefits and raising the costs and social stigma attached to bankruptcy. On the other hand, critics say the new law also encourages lenders to extend credit more freely, leading to increased consumer indebtedness and, ultimately, more bankruptcy filings.



¹"BRAC 2005 closure and realignment impact by economic area" Department of Defense, May 13, 2005. Available at <http://www.defenselink.mil/brac>

²Summary of Deposits data, most recent figures available.

Arkansas at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	0.8%	0.0%	-1.2%	0.2%
Manufacturing (18%)	-0.1%	-2.7%	-3.1%	-7.7%	-3.2%
Other (non-manufacturing) Goods-Producing (5%)	3.7%	-0.7%	-4.9%	2.5%	-1.4%
Private Service-Producing (60%)	1.5%	1.9%	1.2%	-0.2%	1.2%
Government (17%)	1.2%	1.4%	0.8%	1.8%	1.5%
Unemployment Rate (% of labor force)	5.4	5.7	5.6	5.2	4.3

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	6.1%	3.7%	2.3%	6.1%
Single-Family Home Permits	16.5%	11.8%	15.3%	-1.3%	-12.7%
Multifamily Building Permits	64.4%	-9.0%	-8.4%	82.7%	51.2%
Existing Home Sales	15.3%	6.7%	6.2%	7.7%	-3.3%
Home Price Index	7.0%	4.9%	4.3%	3.2%	5.5%
Bankruptcy Filings per 1000 people (quarterly level)	2.39	2.31	2.21	2.11	2.09

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	167	168	176	182	194
Total Assets (in millions)	41,372	38,452	36,102	31,915	29,612
New Institutions (# < 3 years)	1	0	3	5	8
Subchapter S Institutions	33	32	31	30	22

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	2.25	2.50	3.34	2.84	2.64
ALLL/Total Loans (median %)	1.49	1.47	1.37	1.28	1.18
ALLL/Noncurrent Loans (median multiple)	1.49	1.33	1.26	1.17	1.41
Net Loan Losses / Total Loans (median %)	0.22	0.21	0.24	0.24	0.21

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.70	10.02	9.50	9.16	9.40
Return on Assets (median %)	1.04	1.08	1.08	1.06	0.99
Pretax Return on Assets (median %)	1.43	1.49	1.46	1.44	1.35
Net Interest Margin (median %)	4.14	4.13	4.12	4.12	4.01
Yield on Earning Assets (median %)	6.96	6.93	7.07	7.31	7.62
Cost of Funding Earning Assets (median %)	2.86	2.81	3.00	3.20	3.61
Provisions to Avg. Assets (median %)	0.18	0.20	0.22	0.22	0.21
Noninterest Income to Avg. Assets (median %)	0.73	0.72	0.73	0.70	0.70
Overhead to Avg. Assets (median %)	2.91	2.85	2.88	2.86	2.90

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	61.0	59.5	60.5	61.5	62.3
Noncore Funding to Assets (median %)	25.3	24.6	23.7	23.3	24.1
Long-term Assets to Assets (median %, call filers)	13.1	14.5	12.6	12.2	13.7
Brokered Deposits (number of institutions)	43	38	42	38	51
Brokered Deposits to Assets (median % for those above)	5.3	4.0	5.0	2.6	3.2

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	79.2	81.6	84.3	88.4	100.8
Commercial Real Estate	172.9	149.7	145.7	143.2	118.3
Construction & Development	44.9	28.8	24.2	23.4	22.9
Multifamily Residential Real Estate	4.8	4.0	3.7	4.1	4.5
Nonresidential Real Estate	120.6	113.8	108.5	107.3	83.3
Residential Real Estate	152.1	150.2	176.6	178.9	188.6
Consumer	54.6	58.1	68.6	81.4	86.3
Agriculture	44.4	39.1	44.8	45.3	47.5

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Memphis, TN-MS-AR	54	25,949	< \$250 million	129 (77.2%)
Little Rock-North Little Rock, AR	35	9,164	\$250 million to \$1 billion	33 (19.8%)
Fayetteville-Springdale-Rogers, AR-MO	25	5,504	\$1 billion to \$10 billion	5 (3%)
Fort Smith, AR-OK	22	3,400	> \$10 billion	0 (0%)
Jonesboro, AR	16	1,847		